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SUBJECT: JAPANESE MORNING PRESS HIGHLIGHTS 03/14/08

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3) Prime Minister's Official Residence (Kantei)

Prime Minister's schedule, March 13

NIKKEI (Page 2) (Full)
March 14, 2008

08:20
Met with Deputy Chief Cabinet Secretary Iwaki at the Kantei.

09:00
Upper House Budget Committee meeting.

12:00

Lower House plenary session.

13:00

Upper House Budget Committee meeting.

17:15

Met with Otsuji, chairman of the LDP caucus in the Upper House. Then the Intellectual Property Strategy Headquarter meeting. Then met with Chief Cabinet Secretary Machimura.

18:12

Met with Deputy Chief Cabinet Secretary Futahashi. Then attended a meeting of the Council for Promoting Consumer Policy.

19:39

Arrived at the official residence.

4) "America selling": Yen breaks 100 to the dollar for first time in

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12 years; FRB unable to deal with weak dollar

ASAHI (Page 2) (Excerpts)

March 14, 2008

The yen has tested 100 yen against the dollar for the first time in 12 years. The weak-dollar trend caused by America's contracting economy and financial instability is increasingly accelerating. Though some companies that have overcome the current economic difficulty have taken a bullish stance on the basis of having been able to withstand such pressure, anxieties are mounting, following the yen making a big 8-yen gain against the dollar over the past two weeks. Is there a possibility of the yen reaching the 1995 level of 79 yen to the dollar?

Effective rate at 1985 level: "The present trend cannot be called a strong-yen trend"; Japan has strengthened power of resistance

Given the strengthening yen, many exporters are increasingly alarmed, with Toyota Motors President Watanabe noting, "It is a blow to corporate management. We may have to think about other approaches, such as cutting prices."

However, corporate operators are not so pessimistic about the situation, compared with 1995, when the yen appreciated to the 90-yen level against the dollar.

Japan Business Federation (Nippon Keidanren) Chairman Fujio Mitarai during a press conference held on the afternoon of March 13 showed confidence in the domestic economy, noting, "It is not that the yen is rising, but the dollar is falling. Japanese industry has been schooled by the economic difficulties over the past decade. It is well-muscled with stronger power of resistance." Senior fellow Hideki Matsumura at the Japan Research Institute has pointed out, "Most of Japan's exports were U.S.-bound 10-20 years ago. Now, export markets for Japanese products have diversified with newly emerging economies importing more Japanese goods."

In the mid-1990s, when Japan suffered an economic slump following the collapse of the bubble economy, public works and foreign demand shored up the Japanese economy. A major importer of Japanese goods was the U.S., which was continuing massive consumption while suffering a deficit. However, with its trade deficit with Japan reaching an enormous level, the U.S. then called on Japan to open its market and implement structural reforms, bringing about a view that it would apply high-yen pressure on Japan.

A Finance Ministry official said that compared with the movements seen in the 1990s, the present trend could not be called a high-yen trend. The ministry is reluctant to intervene in the market. The real effective exchange rate, which indicates the value of the yen with the exchange rates of currencies other than the dollar, remains on the level of around 1985, when a major strong-yen trend kicked in, following the Plaza Accord. A weak dollar would be a boost for

industries that are suffering a setback from a rise in prices of crude oil, iron ore and foods.

Even so, the Japanese economy is still dependent on foreign demand. Newly emerging economies, new importers of Japanese products, are also dependent on demand from the U.S. There is a strong possibility that a worsening U.S. economy and weaker dollar deal could a double punch to the economies of these countries, having an adverse effect

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on the Japanese economy.

5) 3 opposition parties concur on pre-indictment turnover from U.S. military

TOKYO SHIMBUN (Page 2) (Full)
March 14, 2008

In response to an Okinawa junior high school girl rape case and other incidents, the leading opposition Democratic Party of Japan (Minshuto) and two other opposition parties, the Social Democratic Party (Shaminto) and the People's New Party, consulted yesterday on their joint work of drafting a plan to revise the Japan-U.S. Status of Forces Agreement (SOFA). The three opposition parties basically agreed there to require the U.S. military to turn over its personnel and civilian employees to Japanese investigative authorities in response to a request from Japanese investigative authorities even before they are indicted.

Currently, the United States is to give "sympathetic consideration" to a request from Japanese authorities and turn over its military personnel suspected of serious crimes including murder. However, there are strong calls for revising this SOFA provision. The three parties will meet again next week to work out a joint plan for SOFA revisions and will work on the government to revise SOFA provisions.

6) DPJ envisages opposing three-year extension of "sympathy budget" agreement

ASAHI (Page 4) (Full)
March 14, 2008

The government is planning to extend by three years the Japan-U.S. Special Measures Agreement, slated to expire at the end of March, on Japan's host-nation support (sympathy budget) defraying the expense of stationing U.S. forces in Japan. The Democratic Party of Japan's foreign and defense affairs department meeting decided yesterday to study the matter, envisaging its opposition to the extension on the grounds that the usage of the money is unclear.

In the meeting, the Ministry of Defense produced data on how the sympathy budget has been used. Some DPJ members criticized the facts that the jobs on U.S. bases include such occupations as entomologists, animal handlers, and leisure boat operators, and that the estimated costs and the contract amounts were the same in some base facility construction projects.

After the meeting, Yoshio Hachiro, the DPJ's shadow cabinet foreign minister, said to reporters: "Although the government says that it will make efforts to reduce costs, (the contents) have been terrible."

7) Sympathy budget even covers bar and golf course labor cost

MAINICHI (Page 2) (Abridged slightly)
March 14, 2008

The Ministry of Defense (MOD) produced data yesterday on Japan's host-nation support (sympathy budget) covering the labor costs of stationing U.S. forces in Japan, showing that of the 25,000 base workers, over 20 PERCENT have jobs providing entertainment and food

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services, such as restaurants, bars and golf courses on the U.S. bases.

According to the MOD data presented to the Democratic Party of Japan's foreign and defense affairs department meeting yesterday, the number of base workers was 24,537 as of December 31, 2006. Of them, 5,568 who were not directly hired by the U.S. military worked at "miscellaneous organizations," such as commissaries, entertainment facilities, and welfare facilities on the bases.

The numbers of counter attendants and cooks serving foods were 715 and 456, respectively. Further, there were 93 bartenders, 52 golf course workers, and 29 bowling alley workers -- jobs that are leisure oriented.

The employment of leisure-related workers drew fire in the DPJ meeting, one saying, "It is worse than the (wasteful spending of) road-related tax revenues." DPJ shadow cabinet foreign minister Yoshio Hachiro said: "The United States should pay for the leisure-related labor cost."

The Japan-U.S. Special Measures Agreement, the basis for the sympathy budget, expires at the end of this month. A plan for approving a new agreement is now before the Diet. A senior DPJ Policy Research Committee member said, "We cannot endorse it as is." The party plans to make a decision after scrutinizing the expenses in details.

Japan began bearing the labor cost of base workers in fiscal 1978. The government has appropriated 208.3 billion yen for fiscal 2008, including 146.3 billion yen for the labor cost.

Entertainment-oriented jobs on U.S. bases

(In millions of yen)

Job	Number of workers	Average annual salary
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Bartender	76	4.31
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Bar manager	3	5.48
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Bar helper	2	3.89
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Chief bartender	12	5.06
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Banquet manager	9	4.94
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Club manager	25	6.39
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Cake decorator	5	3.77
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Bowling alley clerk	4	3.98
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Bowling alley manager	3	5.81
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Bowling ball worker	4	4.61
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Bowling alley mechanic	18	4.55
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Golf club manager	1	5.88
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Golf practice range personnel	4	3.74
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Golf course maintenance personnel	47	4.25
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Commercial artist	20	5.65
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Vending machine personnel	48	4.88
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Vending machine repairer	14	4.89
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Animal caretaker	1	3.28
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Cinema projectionist	9	4.30
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Theater director	6	3.52
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Tour guide	3	4.20
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Leisure boat operator	9	4.79
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8) Defense Ministry to take punitive action next week for vice minister, others

TOKYO SHIMBUN (Page 1) (Abridged)

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March 14, 2008

The Defense Ministry decided yesterday to take action next week to punish Administrative Vice Minister Kohei Masuda, Maritime Self-Defense Force Chief of Staff Eiji Yoshikawa, and other senior officials over the recent collision of an Aegis destroyer with a fishing boat, the leakage of classified information about an Aegis ship, and the outbreak of a fire on the destroyer Shirane. The action is expected to affect a total of 100 persons centering on MSDF personnel. The Defense Ministry is considering concurrent punishment over the three cases. MSDF Chief of Staff Yoshikawa will be replaced.

Defense Minister Shigeru Ishiba has clarified that he will not resign until he works out preventive steps and reforms the Defense Ministry. Ishiba has also said the top leader of an organization is to take responsibility in principle for what happened within that organization. In this light, Ishiba will likely be called to take responsibility on his own for the Aegis accident.

Masuda will be punished for his clumsy responses to the Aegis accident and his uncertain press remarks. He is expected to be admonished or cautioned in accordance with internal regulations. The Defense Ministry is also considering punishing the captain of the Atago, the Aegis destroyer that collided with a fishing boat, as well as duty officers at that time and other Atago crewmembers. However, the Defense Ministry has yet to determine its punishment for them because their case is related to investigations into the cause of the accident.

Meanwhile, the MSDF's information leakage was brought to light in January last year. In this case, the Defense Ministry is expected to punish more than 50 MSDF personnel, including a lieutenant commander who was an instructor at an MSDF service school and is suspected of violating an information security law related to the mutual defense assistance agreement between Japan and the United States. This incident was brought up in a meeting of Japanese and U.S. defense leaders in April last year. The Defense Ministry is taking a serious view of the fact that the incident seriously impacted Japan-U.S. relations. MSDF Chief of Staff Yoshikawa and other MSDF staff officers will likely be called into question over their responsibility for the incident in addition to the Aegis accident.

9) Prime minister: Defense minister will be around a long time

NIKKEI (Page 2) (Full)
March 14, 2008

Prime Minister Yasuo Fukuda in a meeting of the Upper House Budget Committee stated: "It is unfortunate that defense ministers have tended to be replaced after a short time without having gained a good grasp of the Self-Defense Forces. The challenge is to keep one on for a long time." His statement was meant to reject the argument coming from the opposition camp for Defense Minister Ishiba to resign to take responsibility for the Aegis collision with a fishing boat. Defense Minister Ishiba, also at the Upper House Budget Committee, denied that he gave a false reply to the Diet regarding what he had heard from the captain of the Aegis ship. The Democratic Party of Japan (DPJ) reacted sharply, with one lawmaker saying, "There are contradictions in your replies." There was even a scene in which deliberations were halted for awhile.

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10) Taiwan crisis a neighboring contingency?

MAINICHI (Page 5) (Full)
March 14, 2008

The ruling Liberal Democratic Party yesterday held a meeting of its security panel, during which participants discussed how Japan should respond in the event of a Taiwan crisis or an armed conflict between China and Taiwan.

In the meeting, LDP lawmakers voiced concern about the threat of China, based on a U.S. Department of Defense report. "In May, President Hu Jintao is coming to Japan. We should remain cautious." So saying, former LDP Vice President Taku Yamasaki checked them. Yamasaki stressed his view: "This matter needs strategic ambiguity most. This is not a matter that is left to Japan's independent judgment alone but is a matter left to a joint judgment of Japan and the United States."

The Defense Ministry's Defense Policy Bureau Director General Nobushige Takamizawa dared to rebut: "It's a serious situation for our country, so the Self-Defense Forces would have to step up its warning and surveillance to cope with such a situation. This is not a matter of the Japan-U.S. security alliance, but rather a problem

of Japan's national security." Takamizawa seemed to have intended to show the Defense Ministry's stance. After the meeting, however, Yamasaki cautioned Takamizawa. "That could cause misunderstanding," Yamasaki told Takamizawa.

11) MOD retracts plan to reduce press conferences

ASAHI (Page 4) (Full)
March 14, 2008

In the wake of his flip flops in explaining the recent Aegis destroyer collision accident, Defense Minister Shigeru Ishiba had suggested reducing the frequency of regular press conferences. In this connection, Administrative Vice-Defense Minister Kohei Masuda in a press conference yesterday effectively withdrew the reduction plan, saying: "What really matters is not the number of (press) conferences."

Masuda also revealed a plan to examine the ministry's responses after the accident, saying: "There is a need to study the matter based on the point that the provision of information was inappropriate." A senior MOD official also commented on the night of March 12: "We have never said that we would reduce the number of press conferences."

12) Government straying off course with no strategy for nomination of BOJ governor

MAINICHI (Page 2) (Excerpts)
March 14, 2008

The government will unprecedentedly submit early next week another proposal naming its selections for the new Bank of Japan (OJ) governor and the two deputy governors. The government and the ruling coalition are still considering a resubmission of its initial plan to promote Deputy Governor Toshiro Muto to become governor. To avoid creating a vacancy in the position, there is also the idea of submitting a stopgap bill to enable the incumbent governor to

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continue his duties even after his term of office expires. This idea, however, has a number of problems. The government and the ruling camp are straying off course, plagued by contradictions in their response and a lack of strategy.

Speaking before reporters yesterday, Prime Minister Yasuo Fukuda expressed his concern about the possibility that the post of the central bank's governor might be left vacant, even though there has been a downturn in the stock market and rapid appreciation of the yen.

According to aides to the prime minister, Fukuda remains cautious about the idea of replacing Muto with another candidate. He reportedly may devise a new plan.

The proposed stopgap bill is a last-ditch measure to keep Governor Toshihiko Fukui in office until his successor is appointed. This idea is being discussed mainly among members of the Liberal Democratic Party's Diet Affairs Committee. The prime minister reportedly remains undecided about the idea.

Even so, the ruling camp held a House of Representatives plenary session yesterday and unofficially appointed Kyoto University Professor Masaaki Shirakawa for the post of BOJ deputy chief. The Bank of Japan Law stipulates that a deputy governor shall serve as acting governor when the governorship is vacant. Some observers point out that the idea of "acting governor" by revising the said law may be inconsistent with the provision in the law.

13) U.S. Ambassador expresses concern about delay in selecting BOJ governor

MAINICHI (Page 2) (Full)
March 14, 2008

U.S. Ambassador to Japan J. Thomas Schieffer met Japanese reporters

at the U.S. Embassy in Tokyo yesterday. Asked about the issue of selecting a new Bank of Japan (BOJ) governor, he expressed his hope that a new governor would be appointed at an early date, saying:

"It is important for Japan to let the international community know who is responsible for its monetary policy. Everybody in the world is hopeful that this issue will be resolved as soon as possible."

The ambassador also said:

"Japan is the world's second largest economy. The issue over a new BOJ governor is serious at a time when global financial markets are going through a difficult phase. Japan should also take part in the measures to be taken by other central banks in the event of a financial crisis. I hope that Japan will maintain (international) confidence."

14) Selection of BOJ governor: Government to resubmit nomination on the 17th: Replacement of candidate for governor to come into focus

ASAHI (Page 1) (Excerpts)
March 14, 2008

With its proposal to promote Deputy Bank of Japan (BOJ) Governor Toshiro Muto to governor failing to secure Diet approval, the government yesterday decided to resubmit a nomination proposal on

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March 17. Since the opposition camp is determined to reject Muto, the question of whether Prime Minister Fukuda will resubmit the proposal to appoint Muto or replace him with another candidate will take the center stage. In a bid to prevent the post of BOJ governor from becoming vacant, a plan to incorporate in the BOJ Law a provision allowing the incumbent governor to stay on until a successor is designated has been floated in the government and the ruling parties. The Lower House yesterday approved at a plenary session the selection of Muto as governor, and Toshitaka Ito, a professor at Tokyo University graduate school, and Masaaki Shirakawa, a professor at Kyoto University, as deputy governors. The appointment of Shirakawa as deputy governor has been decided. However, while the Lower House approved the appointments of Muto and Ito, the Upper House voted them down, nullifying the government proposal.

Following the outcome, Liberal Democratic Party (LDP) Diet Policy Committee Chairman Tadamori Oshima and DPJ Diet Affairs Committee Chairman Kenji Yamaoka held talks and shared the perception that the post of BOJ governor must not become vacant. Yamaoka sought an early resubmission of a nomination plan by the government. Oshima replied, "I will have the government endeavor to do so on the 17th."

Chief Cabinet Secretary Machimura told a news conference on the afternoon of the 13th that the government plans to resubmit a nomination plan on the 17th, noting that Oshima asked the government to do so that day. The prime minister also told reporters, "I will consider the matter, while hearing various views and circumstances tomorrow and the day after tomorrow. I do not want to see the BOJ governor's post become vacant." He thus indicated his stance of reaching a decision on what approach to make, after determining the movements of various parties.

In the meantime, a plan has been floated in the government and the ruling parties for amending the BOJ Law to enable the extension of the tenure of BOJ governor in anticipation of a possible failure to appoint successors by the 19th, when the tenure of the incumbent governor expires.

15) Idea fizzles for LDP, DPJ to jointly work out proposal to modify government's bill on tax revenues for road projects

ASAHI (Page 4) (Full)
March 14, 2008

Junior lawmakers from the ruling Liberal Democratic Party (LDP) and the major opposition Democratic Party of Japan (DPJ) yesterday held a panel discussion at the Kensei Kaikan Hall near the Diet to

discuss what to do about tax revenues set aside for road construction, including the question of whether to extend the current provisional tax rate for gasoline. Another group of mainstay and junior lawmakers from those two parties on the same day intended to come up with a joint proposal to modify the government's bill on the tax revenues for road projects. But the idea of jointly hammering out such a proposal was shelved in the wake of the continued clash between the ruling and opposition camps over the appointment of a new Bank of Japan (BOJ) governor.

The panel discussion was sponsored by the youth bureaus of the LDP and the DPJ. In the discussion, LDP lawmakers criticized the DPJ's plan for lacking fiscal resources to pay for it. Meanwhile, DPJ lawmakers rebutted that their position was to appeal to the public

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about a tax cut by scrapping the provisional tax rate for gasoline, given that people's family budgets are shrinking.

On some subjects, both sides argued on different planes, but they agreed on measures to eliminate lavish spending for road construction, for instance, by making the process of selecting road projects transparent.

Aside from the panel discussion, another group of lawmakers from the LDP and the DPJ, including Taro Kono of the LDP and Goshi Hosono of the DPJ, drafted a proposal to modify the government's bill by incorporating points that could win agreement from the rest of the members of both parties. Their draft proposal consists of three features: (1) The provisional tax rate for gasoline would be maintained, but the tax based on automobile weight would be scrapped; (2) the toll system would be maintained for expressways with large volumes of traffic, but tolls on all other expressways would be eliminated; and (3) one trillion yen or so would be set aside to be used for road projects, but the local tax portion would be incorporated into the general budget so that local municipalities could use the funds without any restrictions.

Both sides planned to announce the draft together, but according to an LDP source, just before the announcement, the DPJ executives told the mainstay and junior lawmakers involved that they could not do so. As a result, the idea of a joint declaration of the draft proposal fizzled.

16) Prime Minister Fukuda hopeful of talks on modifying government's bill

ASAHI (Page 4) (Excerpt)
March 14, 2008

The ruling bloc has now reversed its policy of modifying the government's proposed legislation that contains the provisional tax rate for gasoline. The law will expire at the end of the month. The LDP and its junior coalition partner New Komeito will draft a proposal to modify the government's bill and present it to the opposition bloc possibly next week. However, the ruling bloc and the DPJ are still wide apart, with the DPJ calling for scrapping the provisional tax rate for gasoline and incorporating dedicated tax revenues for road projects into general budget. In the ruling camp, calls for bold compromise (to the DPJ) are prevailing, while some are still strongly insisting on not making broad concessions. Coordinating views in the government and the ruling camp will be difficult, indeed.

17) JBIC failed to report to BOA on fire at facility constructed using ODA

ASAHI (Page 39) (Excerpts)
March 14, 2008

Miki Shikura, Naoki Kagawa

A heavy oil facility for desulfurization in Mexico, which was constructed with funds financed by the Japan Bank for International Cooperation (JBIC), caught fire and suspended its operation from January 2002 through fall of that year. According to an inspection

conducted in 2002 of JBIC by the Board of Audit (BOA), the JBIC likely did not to report the accident to the BOA. The JBIC also

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estimated the facility's capacity for desulfurization to be larger than its actual capacity and reported this estimate to the BOA. The JBIC explained that it had no intention of covering up the fact.

The facility in question was constructed with yen loans financed under a Japanese government ODA project. Yen loans, which are funded with taxes, are given by the JBIC to ODA-recipient countries at low interest rates and for a long term. Yen loans are subject to BOA inspections. The BOA is investigating whether there was any problem about the way JBIC reported on yen loans, with some arguing that the JBIC's report to the BOA might not have reflected the actual situation, because the JBIC failed to report the accident.

The facility is intended to prevent emissions of sulfur dioxide, one factor for air pollution, by reducing sulfur from heavy oil used by thermal power stations. Mexico's state-owned petroleum company PEMEX constructed the facility. JBIC lent a total of 48.9 billion yen for the construction of the facility. The facility was completed in 1997 and went into operation, but in January 2002, it suspended operation because of a fire that was allegedly caused by an oil leak and was closed for six months from February that year. The facility was unable to operate until late October 2002.

Because the facility's actual capacity was reported as some 18,000-28,000 barrels per day on average from 1999 through 2001, the BOA concluded that the capacity was too low, compared with the estimated capacity (of 50,000 barrels per day), and that it is questionable that ODA was useful for that facility. In Feb. 15, 2002, the BOA conducted an on-the-spot inspection in the facility in Mexico and asked the JBIC to report on how the facility is operating.

SCHIEFFER